

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Apple Canyon Utility Company)
Proposed general increase in water rates) Docket No. 12-0603

Lake Wildwood Utilities Corporation)
Proposed general increase in water rates) Docket No. 12-0604

DIRECT TESTIMONY OF

DONNA RAMAS

ON BEHALF OF

PEOPLE OF THE STATE OF ILLINOIS,

APPLE CANYON LAKE PROPERTY OWNERS' ASSOCIATION,

AND

LAKE WILDWOOD ASSOCIATION, INC.

AG/ACLPOA/LWA Joint Exhibit 1.0

January 28, 2013

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1 **INTRODUCTION**

2 **Q. Please state your name, occupation and business address.**

3 A. My name is Donna M. Ramas. I am a Certified Public Accountant licensed in the state of
4 Michigan. I am also a senior regulatory consultant and the Principal at Ramas
5 Regulatory Consulting, LLC, located at 4654 Driftwood Drive, Commerce Township,
6 Michigan.

7
8 **Q. What is the purpose of your testimony this proceeding?**

9 A. I was asked by the Office of the Attorney General of the State of Illinois (“Attorney
10 General”) and Apple Canyon Lake Property Owners’ Association (“ACLPOA”) to
11 review the request for rate increase filed by Apple Canyon Utility Company (“Apple
12 Canyon”). I was also asked by both the Attorney General and Lake Wildwood
13 Association, Inc. (“LWA”) to review the request for rate increase filed by Lake
14 Wildwood Utilities Corporation (“Lake Wildwood”). Thus, the purpose of this testimony
15 is to present my analysis of the revenue requirements presented by Apple Canyon and
16 Lake Wildwood on behalf of the People of the State of Illinois, the ACLPOA and LWA.
17 This testimony is cumulative to the testimony of other parties in this docket. Due to time
18 and resource constraints, I have not conducted an exhaustive review of all potential issues
19 in this case. Although Commission Staff filed testimony prior to the
20 AG/ACLPOA/LWA, I am not taking a position on Staff’s testimony at this time, but do
21 reserve the right to file rebuttal testimony as provided for in the docket schedule, if
22 needed.

1 **Q. Ms. Ramas, would you please summarize your regulatory experience and**
2 **qualifications?**

3 A. I graduated with honors from Oakland University in Rochester, Michigan in 1991.
4 Beginning in 1991, I was employed by a Certified Public Accounting firm that
5 specialized in regulatory consulting, Larkin & Associates, PLLC, until forming Ramas
6 Regulatory Consulting, LLC in 2012. As a certified public accountant and regulatory
7 consultant, I have analyzed utility rate cases and regulatory issues, researched accounting
8 and regulatory developments, prepared computer models and spreadsheets, prepared
9 testimony and schedules and testified in regulatory proceedings. I have submitted
10 testimony in over 90 regulatory proceedings in the following jurisdictions: Arizona,
11 California, Connecticut, the District of Columbia, Florida, Louisiana, Massachusetts,
12 New York, Nova Scotia, Utah, Vermont and Washington. I have also performed
13 analytical work and reviewed regulatory issues and/or revenue requirements for which
14 testimony was not filed in many additional cases in the above identified jurisdictions and
15 in Hawaii, Illinois, Indiana, Guam, Kentucky, North Carolina, Ohio, Pennsylvania,
16 Rhode Island and Virginia.

17
18 **Q. Have you prepared an appendix further detailing your qualifications and**
19 **experience?**

20 A. Yes. I have attached Appendix 1, which is a summary of my regulatory experience and
21 qualifications.

1 **Q. What have you found with regards to your review of the revenue requirements**
2 **presented by Apple Canyon and Lake Wildwood?**

3 A. The revenue requirements presented by both Apple Canyon and Lake Wildwood are
4 overstated and should be reduced. In this testimony, I am recommending adjustments
5 that impact rate base and net operating income. Each of my recommended adjustments
6 will be addressed in this testimony.

7
8 **Q. Have you prepared any schedules in support of your adjustments?**

9 A. Yes, I have prepared Schedules 1.1 through 1.13, attached as AG/ACLPOA/LWA Joint
10 Exhibit 1.1, supporting the adjustments addressed in this testimony.

11
12 **ADJUSTMENTS TO RATE BASE**

13 **Q. Apple Canyon's filing presents an adjusted rate base for the test year ended**
14 **December 31, 2011 of \$922,529. Are you recommending any adjustments to Apple**
15 **Canyon's proposed rate base?**

16 A. Yes. I am recommending several adjustments to Apple Canyon's proposed rate base.
17 First, I recommend that Apple Canyon's request to include the estimated costs to paint a
18 water tower in rate base as a pro forma plant addition be rejected. Apple Canyon has not
19 provided adequate support for inclusion of this project in pro forma plant in service. I
20 also recommend that three separate items that were added to Apple Canyon's plant in
21 service balances since the last rate case, Docket No. 09-0548, be removed. These
22 include: 1) leak survey costs that were added to plant account 113 – Service Lines in
23 December 2009; 2) service area boundary survey costs added to plant account 105 –

1 Structures and Improvements – Source of Supply in March 2009; and 3) an inventory
2 reclassification adjustment that was booked to plant account 113 – Service Lines in
3 August 2010.

4
5 I am also recommending several adjustments to cash working capital for both Apple
6 Canyon and Lake Wildwood.

7
8 **Q. Lake Wildwood's filing presents an adjusted rate base for the test year ended**
9 **December 31, 2011 of \$928,908. Are you recommending any adjustments to Lake**
10 **Wildwood's proposed rate base?**

11 A. Yes. I am recommending several adjustments to Lake Wildwood's proposed rate base. I
12 recommend that two plant items that are not in service and are not being used to serve
13 customers be removed from plant in service and instead be placed in plant held for future
14 use. The two plant items include a 50,000 gallon horizontal storage tank and a 10,000
15 gallon hydro-pneumatic tank. I recommend that these items be excluded from rate base
16 until such time as they are placed in service and providing service to Lake Wildwood's
17 customers. I am also recommending that two items added to Lake Wildwood's plant in
18 service balance since the last rate case, Docket No. 09-0549 be removed because the
19 costs should not have been booked to plant in service. These include: 1) service area
20 boundary survey costs added to plant account 105 – Structures and Improvements –
21 Source of Supply in March 2009; and 2) an inventory reclassification adjustment that was
22 booked to plant account 113 – Service Lines in August 2010.

1 **Q. Would you please discuss each of the above adjustments?**

2 A. Yes, each of my recommended adjustments impacting rate base are addressed below.

3 Pro Forma Plant Addition – Apple Canyon

4 **Q. Please discuss the pro forma plant adjustment proposed by Apple Canyon.**

5 A. Apple Canyon included a \$100,000 addition to plant in service for projected costs
6 associated with a project to paint its existing water tower, which it proposed to amortize
7 over a ten year period. According to the Direct Testimony of Dimitry Neyzelman, at
8 page 5, the project has been approved by management and is projected to be completed
9 by May 31, 2013.

10
11 **Q. Was additional support sought from the Company on this project?**

12 A. Yes. Staff Data Request TEE 5.01 asked the Company to "...provide copies of any
13 contract, request for bid, or other support for the pro forma plant..." The request also
14 sought evidence to support the May 31, 2013 completion date identified in the
15 Company's workpapers. The Company responded as follows:

16 Currently, there are no contracts or requests for bids. The estimated cost of the
17 project is based on known historical tank painting projects. The work related to
18 this project has not yet started. The Company will provide support as it becomes
19 available in the Spring of 2013.
20

21 No further information was provided in the response. Additionally, the response did not
22 identify or provide the actual cost or details pertaining to the "known historical tank
23 painting projects" that the Company contends were the basis of the \$100,000 cost
24 estimate.
25

1 **Q. In your opinion, has Apple Canyon supported the \$100,000 pro forma plant**
2 **addition included in its filing?**

3 A. No, it has not. Section 287.40 of the Administrative Code addresses pro forma
4 adjustments to historical test year data. According to Section 287.40, a utility may
5 propose pro forma adjustments to the selected historical test year for “...known and
6 measurable changes in the operating results of the test year.” (emphasis added) Section
7 287.40 requires that “Any proposed known and measurable adjustment to the test year
8 shall be individually identified and supported in the direct testimony of the utility.”
9 While Mr. Neyzelman’s testimony identified the adjustment to plant in service for
10 painting the water tower, it did not provide support for the cost that was included. Based
11 on the limited information provided by the Company in its filing and in response to
12 Staff’s Data Request TEE 5.01, it is my opinion that the amount is not known or
13 measurable and is not adequately supported.

14
15 **Q. What adjustment do you recommend?**

16 A. I recommend that the full \$100,000 pro forma plant addition be removed from rate base
17 due to lack of support. Accumulated depreciation should be reduced by \$10,000. The
18 adjusted test year amortization expense should also be reduced by \$10,000 to remove the
19 amortization of the water tower painting costs. These adjustments are shown on
20 Schedule 1.1.

Remove Leak Survey Costs from Plant in Service – Apple Canyon

Q. Please discuss your adjustment to remove leak survey costs from Apple Canyon’s plant in service.

A. In December 2009, \$12,600 was booked to Apple Canyon’s plant in service Account 113 – Service Lines¹ for a water distribution leak survey that was conducted by M.E. Simpson Company, Inc. The invoice for the leak survey was provided as part of the response to Staff Data Request TEE 1.01. The invoice was for 7 days of water main survey work. The invoice is for a survey of the water distribution system for leaks and is not tied to a specific capital project. The leak survey would not qualify as a capital item under the NARUC Uniform System of Accounts for Water Utilities² as it is not tied to a specific capital asset. Rather, the cost of the survey should have been booked to expense in the period incurred.

Q. What reason did the Company give for booking the costs of the survey to plant in service instead of expense?

A. In response to Data Request AG 2.05, the Company indicated that the survey “...led to the discovery and repair of numerous leaks within the distribution system.” Since the discovery of the leaks led to capital improvements, the Company considered the leak survey part of the cost of the capital improvements. However, the leak survey of the system is not a capital project. It was a general survey for leaks. The Company indicated in the response that since the time of the leak survey Apple Canyon has purchased leak detection equipment to be used internally which will “...save on the expense of

¹ Utilities, Inc. Account 113 corresponds to NARUC USOA Plant Account 333 – Services.

contracted work” and the equipment is used regularly by Apple Canyon employees to locate leaks in the distribution system.

Q. What adjustments should be made to remove the leak survey costs from the test year?

A. As shown on Schedule 1.2, plant in service should be reduced by \$12,600, depreciation expense should be reduced by \$420, and accumulated depreciation should be reduced by \$1,049. The net reduction to the adjusted test year rate base is \$11,551 (\$12,600 - \$1,049).

Remove Service Area Boundary Survey Costs from Plant in Service – Apple Canyon & Lake Wildwood

Q. Since the time of the last rate case for Apple Canyon and Lake Wildwood, were any additional survey costs booked to plant in service?

A. Yes. From November 2008 to March 2009, SEC Group, Inc. performed surveys described as “Service Area Boundaries.” The invoice from SEC Group, Inc., totaling \$23,900, was provided in response to Staff Data Requests TEE 4.01 and TEE 4.02. The invoice identifies twelve service territories that were surveyed, including both Lake Wildwood and Apple Canyon. On March 24, 2009, \$2,050 was booked to Apple Canyon’s plant in service and \$2,842 was booked to Lake Wildwood’s plant in service, both in Plant Account 105 – Structures and Improvements – Source of Supply,³ for the

³ Utilities, Inc. Account 105 corresponds to NARUC USOA Plant Account 304 – Structures and Improvements.

costs of the service area boundary surveys. Presumably, the remaining \$19,008 was booked to the other operating companies in the survey.

Q. Was any additional information provided by the Company with regards to the survey?

A. Yes. Data Request AG 2.11 asked why the survey was conducted and why the survey was booked to plant in service. In response, the Company indicated that the boundary survey performed by SEC Group was conducted for the following reasons: 1) to ensure the Certificated Area of Convenience for Services at Apple Canyon was up to date and complete; and 2) for purposes of the annexation of new Apple Canyon Fire Department. The response was silent with regards to the survey costs applicable to Lake Wildwood and the other operations covered under the survey. The response also stated that “The cost of the survey resulted in updated mapping of the water system and obtaining of new assets provided during the Fire Department annexation.”

Q. Based on your review of the invoice and the response to Data Request AG 2.11, does the survey work performed by SEC Group, Inc. qualify as plant in service?

A. No. Conducting surveys to ensure that the Company’s Certification Area of Convenience for Service is accurate and up to date and updating of service area mapping is not a capital asset item. Rather, the costs should have been booked as expense in the period incurred and not capitalized as part of plant in service.

Q. What adjustments should be made for the survey costs?

1 A. As shown on Schedule 1.3, for Apple Canyon, plant in service should be reduced by
2 \$2,050, depreciation expense should be reduced by \$85 and accumulated depreciation
3 should be reduced by \$214. The net reduction to Apple Canyon's rate base is \$1,836.

4
5 For Lake Wildwood, plant in service should be reduced by \$2,842, depreciation expense
6 should be reduced by \$119 and accumulated depreciation should be reduced by \$296.
7 The net reduction to Lake Wildwood's rate base is \$2,546.

8
9 Remove Inventory Reclassification Adjustment from Plant in Service – Apple Canyon &
10 Lake Wildwood

11 **Q. Please discuss the inventory reclassification adjustment presented on Schedule 1.4.**

12 A. On August 31, 2010, Utilities, Inc. transferred amounts from the inventory accounts to
13 plant in service in its Illinois districts. For Apple Canyon and Lake Wildwood, \$3,037.98
14 and \$855.00, respectively, was booked to Plant Account 113 – Service Lines⁴ as part of
15 the reclassification. The Companies provided details regarding the transfer to plant in
16 service in response to Staff Data Requests TEE 4.01 and 4.02, including copies of the
17 journal entries.

18
19 The information provided indicates that the journal entry adjustment was the reversal of a
20 1995 transfer. The description provided at the bottom of the journal entry indicates as
21 follows:

⁴ Utilities, Inc. Account 113 corresponds to NARUC USOA Plant Account 333 – Services.

1 In 1995 UI moved plant balances between misc plant accounts and inventory to
2 represent 1995 yearend inventory on hand. However, UI does should (sic) not
3 show inventory balances.
4

5 I do not believe these assets should receive any depreciation at this time. Our
6 physical inventory consistently cycles and is always turning over. However, we
7 no longer carry inventory recently.
8

9 Also provided with the response were General Ledger pages for the year ended
10 December 31, 1995 showing the amounts being removed from plant in service and placed
11 into inventory.
12

13 Thus, the adjustment made to increase plant in service in August 2010 was the reversal of
14 an entry that was made over 15 years prior in 1995. The effect is shifting costs for items
15 still recorded in inventory on Apple Canyon's and Lake Wildwood's books, which may
16 not even still be in existence, into plant in service instead of writing off the balances to
17 expense on the books. It appears that the Company determined that the items it recorded
18 in inventory in 1995, which still remained in inventory on Apple Canyon's and Lake
19 Wildwood's books, were not actually physically present in the inventory in 2010. Instead
20 of writing off the non-existent inventory as expense in 2010, the Company instead
21 transferred the costs to plant in service on Apple Canyon's and Lake Wildwood's books.
22 This results in an increase in rate base and an increase in depreciation expense.
23

24 **Q. Should the amounts that were moved on the books from inventory to plant in**
25 **service remain in plant in service in the adjusted test year?**

26 A. No, they should not. The Company has not demonstrated that assets it placed in
27 inventory on its books in 1995 were in fact placed into service during the intervening

1 years. In fact, even the August 2010 entry to reverse the prior 1995 entry indicates that
2 the preparer did not believe the assets should receive any depreciation. The entry merely
3 reversed an entry that had been made 15 years prior. If a portion of the items that were
4 moved to inventory in 1995 had in fact been placed into service during the intervening 15
5 year period, then the items should have been moved to plant in service when put in
6 service and depreciated over the intervening years. I recommend that the reversal of the
7 1995 entries be removed from plant in service.

8
9 **Q. What adjustments are needed to remove the inventory reclassification adjustments**
10 **from the test year?**

11 A. As shown on Schedule 1.4, for Apple Canyon, plant in service should be reduced by
12 \$3,038, depreciation expense should be reduced by \$101 and accumulated depreciation
13 should be reduced by \$152. The net reduction to Apple Canyon's rate base is \$2,886.

14
15 For Lake Wildwood, plant in service should be reduced by \$855, depreciation expense
16 should be reduced by \$28 and accumulated depreciation should be reduced by \$43. The
17 net reduction to Lake Wildwood's rate base is \$812.

18
19 Remove Storage Tanks from Plant in Service – Lake Wildwood

20 **Q. Are you recommending any additional adjustments to plant in service?**

21 A. Yes. Lake Wildwood owns two 50,000 gallon horizontal storage tanks and two 10,000
22 gallon hydro-pneumatic tanks for storage. According to the response to Staff Data
23 Request CLH-1.20, one of the 50,000 gallon horizontal storage tanks and one of the

1 10,000 gallon hydro-pneumatic tanks are not used. The responses to Staff Data Requests
2 TQS 1.1 through 1.7 indicate these two tanks have never been used and are not in service.
3 The tanks are available for future use and were installed by the original developer of the
4 water system "...in anticipation of the community building out to capacity." The
5 Company agrees that the Lake Wildwood community does not require the use of these
6 storage tanks at this time. Since these two storage tanks are not in service, and have
7 never been in service, I recommend the net plant included in rate base for these two tanks
8 be moved from plant in service and accumulated depreciation to property held for future
9 use ("PHFFU").
10

11 **Q. Why do you recommend that the two unused storage tanks be removed from plant**
12 **in service and accumulated depreciation and placed in PHFFU?**

13 A. These two storage tanks are not providing service to customers, are not in use, and thus,
14 do not qualify for inclusion in plant in service. Under the Uniform System of Accounts
15 ("USOA"), for an item to be included in plant in service, the utility plant should be
16 owned and used by the utility in its operations.
17

18 The remaining net plant in service (i.e., plant in service less accumulated depreciation) on
19 these two tanks should be transferred to PHFFU. Since depreciation on the unused tanks
20 has been collected from ratepayers in the past, the amount transferred should be on a net
21 basis. The Uniform System of Accounts ("USOA") provides as follows for Account 103
22 – Property Held for Future Use:

23 This account shall include the original cost of property owned and held for future
24 use in utility service under a definite plan for such use. There shall be included

1 herein property acquired but never used by the utility in utility service, but held
2 for such service in the future under a definite plan, and property previously used
3 by the utility in utility service, but retired from such service and held pending its
4 reuse in the future, under a definite plan, in utility service.

5
6 The USOA also provides as follows under Accounting Instruction 29 – Utility Plant –
7 Transfers of Property:

8 When property is transferred from one utility plant account to another, from one
9 utility department to another, such as from water to wastewater, from one
10 operating division or area to another, to or from accounts 101 – Utility Plant in
11 Service, 102 – Utility Plant Leased to Others and 103 – Property Held for Future
12 Use, the transfer shall be recorded by transferring the original cost thereof from
13 the one account, department or location to the other. Any related amounts carried
14 in the accounts for accumulated depreciation or amortization shall be transferred
15 in accordance with the segregation of such accounts.
16

17 **Q. Should the balance transferred to PHFFU be included in rate base to earn a return?**

18 A. No. Since the assets are not used and useful in serving customers, they should be
19 excluded from rate base until such time as they are placed in service and providing
20 service to customers.

21
22 In response to Staff Data Request TQS 1.7, Lake Wildwood indicates that the two storage
23 tanks should not be retired from plant in service, and that “By retiring these assets now, it
24 would prevent the use of them in the future and negate the feasibility to charge
25 availability of water to the current vacant lot owners.” I agree that the assets should not
26 be retired on the books as they are available for future use when needed. However, they
27 should be transferred to PHFFU. I do not agree that transferring the assets to PHFFU
28 would “negate the feasibility to charge availability of water to the current vacant lot
29 owners.” The current vacant lot owners that are charged an availability charge have the
30 ability to use the storage tanks that are currently in service when they connect to the

1 system. At such time that enough additional lots are built upon requiring the need to
2 place the two unused storage tanks in service, the storage tanks should then be transferred
3 back to plant in service at the time they are needed to serve customers and placed into
4 service.

5
6 **Q. Does the Company object to moving the tanks from plant in service to plant held for**
7 **future use?**

8 A. No. In response to Data Request AG 2.03, Lake Wildwood indicated that it “would not
9 be opposed to moving these tanks from plant in service to plant held for future use per the
10 amounts calculated in response to AG 2.02.” However, the amount identified in the
11 response to be moved to PHFFU should be modified.

12
13 **Q. What amounts are included in the adjusted test year for the unused storage tanks?**

14 A. In response to Data Request AG 2.02, the Company was asked to provide the estimated
15 amounts included in rate base for the unused 50,000 gallon horizontal storage tank and
16 the unused 10,000 gallon hydro-pneumatic tank. The response indicated that the cost
17 information for the 50,000 gallon horizontal storage tank and the 10,000 gallon hydro-
18 pneumatic tank were unavailable as they were built by the developer in 1965. The
19 Company has estimated the original costs as \$10,000 for the 50,000 gallon horizontal
20 storage tank and \$1,500 for the 10,000 gallon hydro-pneumatic tank. The Company also
21 estimated accumulated depreciation as \$7,566 for the 50,000 gallon tank and \$1,135 for
22 the 10,000 gallon tank. Test year depreciation expense is estimated as \$192 for the
23 50,000 gallon tank and \$29 for the 10,000 gallon tank.

1
2 **Q. What adjustments should be made to Lake Wildwood's adjusted test year to**
3 **transfer the unused storage tanks to PHFFU?**

4 A. As shown on Schedule 1.5, plant in service should be reduced by \$11,500, depreciation
5 expense should be reduced by \$221 and accumulated depreciation should be reduced by
6 \$8,701. The net reduction to Lake Wildwood's rate base is \$2,799.

7
8 **Q. What amount should Lake Wildwood book to PHFFU when it transfers the**
9 **balances from plant in service and accumulated depreciation?**

10 A. As part of its response to Data Request AG 2.02, the Company identified the full original
11 cost (i.e., \$11,500), instead of the net of accumulated depreciation balance, being added
12 to PHFFU. However, I recommend that the net balance of \$2,799 be transferred to
13 PHFFU, which includes \$2,434 for the 50,000 gallon tank and \$365 for the 10,000 gallon
14 tank. Since depreciation on the unused tanks has been collected from ratepayers in the
15 past, the amount transferred to PHFFU should be on a net basis. If transferred to PHFFU
16 on the estimated original plant cost basis, as proposed by the Company, the customers
17 would be required to fund the plant costs twice – once through the original depreciation
18 expense already recovered in past rates and again in the future when the tanks are placed
19 into service and transferred to plant in service. This clearly would not be appropriate. As
20 previously indicated in this testimony, the PHFFU balance should be excluded from rate
21 base as it is not used or useful in serving customers.

Cash Working Capital – Apple Canyon and Lake Wildwood

Q. Are you recommending any adjustments to Cash Working Capital?

A. Yes. Both Apple Canyon and Lake Wildwood's working capital requests are based on applying a $1/8^{\text{th}}$ formula (i.e., 12.50%) to the adjusted pro forma amount of maintenance expenses, general expenses and taxes other than income. In many situations it is not cost effective to conduct a full lead-lag study for small water company operations as the cost of conducting the study would far outweigh the benefits of the study. Thus, the $1/8^{\text{th}}$ O&M method may be used for small utilities for purposes of estimating a company's cash working capital needs. However, the method is typically referred to the $1/8^{\text{th}}$ O&M method and it is my understanding that the calculation is typically limited to operation and maintenance and administrative and general expenses and excludes taxes from the calculation. By including taxes other than income in the calculations, the Companies go beyond what is typically allowed when using the $1/8^{\text{th}}$ formula method for estimating cash working capital. The $1/8^{\text{th}}$ O&M method yields a very rough estimate of a company's cash working capital needs. Apple Canyon and Lake Wildwood have not justified going beyond the typical application by including taxes other than income in the calculation. Thus, I recommend that the expenses for taxes other than income be removed from the calculations.

Q. What impact does the removal of taxes other than income have on the cash working capital request?

A. As shown on Schedule 1.6, limiting the cash working capital calculation to the maintenance and general expenses (i.e., removal of taxes other than income) results in a

1 \$2,507 reduction to Apple Canyon's cash working capital request and a \$2,276 reduction
2 to Lake Wildwood's cash working capital.

3
4 **Q. Should any additional adjustments be made to the cash working capital**
5 **calculations?**

6 A. Yes. Any adjustments to the maintenance and general expenses contained in the filings
7 will also impact the calculation of cash working capital. As a result, for any adjustments
8 impacting the maintenance and general expense categories in the filings that are adopted
9 by the Commission, the 1/8th (or 12.50%) factor should be applied and the cash working
10 capital request adjusted accordingly.

11
12 **ADJUSTMENTS TO NET OPERATING INCOME**

13 **Q. Are you recommending any adjustments that impact Apple Canyon and Lake**
14 **Wildwood's adjusted pro form net operating income?**

15 A. Yes. I am recommending several adjustments that impact the adjusted pro forma
16 operating expenses of both Apple Canyon and Lake Wildwood. Each of the
17 recommended adjustments, as well as the impact on each filing, is addressed in this
18 section of my testimony. Additionally, as previously addressed in this testimony, each of
19 my recommended adjustments to plant in service also impact depreciation expense.

Computer Depreciation Expense – Apple Canyon and Lake Wildwood

Q. What rate are the Companies using to depreciate computer plant balances in their filings?

A. The workpapers for both Apple Canyon and Lake Wildwood reflect a 14.29% depreciation rate being applied to the test year balances for computer plant in service. The 14.29% rate equates to a 7 year depreciation/amortization period ($1 / 7 = 14.29\%$). This resulted in computer depreciation expense of \$39,285 for Apple Canyon and \$20,644 for Lake Wildwood. The vast majority of the computer plant balances to which the depreciation rate is applied are allocated to each of the Companies from Water Service Corporation, with a minimal amount also allocated from the Illinois state level to the utilities.

Q. Is the 14.29% depreciation rate that is applied to the computer plant balances in the workpapers consistent with the depreciation rate used by the Company for book purposes?

A. It does not appear to be. The trial balance contained in the workpapers shows a per-book computer depreciation expense for Apple Canyon of \$29,935 for the test year ended December 31, 2011. The booked expense is \$9,350 less than the adjusted computer depreciation expense incorporated in the filing. For Lake Wildwood, the workpapers show a per-book computer depreciation expense of \$15,739, which is \$4,907 less than the adjusted amount incorporated in the filing. Based on the large discrepancies, it appears that Water Service Corporation is actually using a depreciation rate for computers that is much lower than the 14.29% rate used in the filing.

1
2 **Q. Are you aware of any significant changes in the computer systems that would**
3 **impact the appropriate depreciation rate for computer assets?**

4 A. Yes. In the prior Apple Canyon and Lake Wildwood rate case, Docket Nos. 09-0548 and
5 09-0549, Company witness Steven Lubertozi testified that Utilities Inc. implemented a
6 new nationwide accounting software system (JD Edwards Enterprise One) in December
7 2007 and a new nationwide Customer Care and Billing System (Oracle) in June 2008.
8 Mr. Lubertozi indicated that the Company had not made significant investments in
9 technology in “quite some time” prior to the implementation of the two new systems.
10 Given the significant investment associated the two new systems, coupled with the fact
11 that the prior systems had been in place for “quite some time,” it is likely that the life of
12 these two new major systems would exceed seven years.

13
14 **Q. What amount is recorded on Water Service Corporations books for computer assets**
15 **in the test year?**

16 A. Both Apple Canyon and Lake Wildwood’s workpapers show the following amounts for
17 Water Service Corporation’s computer plant in service accounts as of December 31,
18 2011:

UI		12/31/11
<u>Account</u>	<u>Description</u>	<u>Balance</u>
1580	Mainframe Computer Wtr	\$ 1,086,597
1585	Mini Computers Wtr	1,576,886
1590	Comp Sys Cost Wtr	22,873,020
1595	Micro Sys Cost Wtr	562,326
	Total	<u>\$ 26,098,829</u>

19
20 Apple Canyon is allocated 0.99% of the balance, and Lake Wildwood is allocated 0.52%.

1
2 **Q. What depreciation rates do you recommend be used in this case?**

3 A. I recommend that the amounts in the mainframe computer and mini-computer accounts,
4 UI Accounts 1580 and 1585, be depreciated over a period of five years, resulting in a
5 depreciation rate of 20%. Based on the account title, these likely include the hard
6 computer assets, such as the individual computers used by employees. Based on my
7 experience, a five year depreciation life may be reasonable for such computer hardware.
8 For the Computer System costs and Micro System Costs, UI Accounts 1590 and 1595, I
9 recommend a depreciation life of at least 15 years, resulting in a depreciation rate of
10 6.67%. Clearly, the vast majority of the new system costs would be included in Account
11 1590 – Computer System Costs. Absent the Company providing the expected life for
12 these assets, a 15 year depreciation life is a more reasonable assumption than the seven
13 year life that would result from the 14.29% depreciation rate that is incorporated in the
14 filing. In my opinion, the 14.29% depreciation rate in the filing is not reasonable and not
15 likely reflective of the life of the existing computer assets. In other regulatory
16 proceedings I have participated in which included depreciation or amortization costs
17 associated with major computer system replacements, a life much longer than 7 years has
18 been used by the utilities as the projected useful life of the new systems have exceeded 7
19 years.

20
21 **Q. What adjustment is needed to reflect your recommended depreciation rates for the**
22 **computer assets?**

1 A. As shown on Schedule 1.7, depreciation expense should be reduced by \$15,252 for Apple
2 Canyon and by \$8,016 for Lake Wildwood to reflect the new depreciation rates on a
3 going-forward basis. This is the result of applying a depreciation rate of 20% (5 year
4 life) to the mainframe and mini-computer accounts and a 6.67% rate (15 year life) to the
5 computer system accounts.

6
7 Vehicle Depreciation Expense – Apple Canyon and Lake Wildwood

8 **Q. What rate are the Companies using to depreciate vehicles in their filings?**

9 A. The workpapers for both Apple Canyon and Lake Wildwood reflect a 25% depreciation
10 rate being applied to the adjusted test year balances for vehicles. Most of the costs of
11 vehicles that are allocated to both Apple Canyon and Lake Wildwood in the filing
12 workpapers are fully depreciated on the books. Thus, the 25% depreciation rate is only
13 being applied to the vehicles that have not already been fully depreciated in determining
14 the adjusted pro form vehicle depreciation expense. The 25% rate would equate to a 4
15 year depreciation period. This resulted in adjusted pro forma vehicle depreciation
16 expense of \$4,260 for Apple Canyon and \$2,704 for Lake Wildwood.

17
18 **Q. Does the 25% depreciation rate that is applied to the vehicles in the workpapers
19 appear to be consistent with the length of time the vehicles are retained?**

20 A. No. The Apple Canyon workpapers show eight separate vehicles for which Apple
21 Canyon would be allocated a portion of the costs. Of those eight vehicles, only two are
22 included in the adjusted vehicle depreciation expense as the remaining six are fully
23 depreciated on the books. For those fully depreciated vehicles, as of the end of the test

1 year three had already been in service for four years; one had already been in service for
2 five years; one had already been in service for six years; and one had been in service for
3 seven years. The average length in service so far for these six vehicles is five years.
4

5 The Lake Wildwood workpapers show eight separate vehicles for which Lake Wildwood
6 would be allocated a portion of the costs. Of those eight vehicles, only two are included
7 in the adjusted vehicle depreciation expense as the remaining six are fully depreciated on
8 the books. For those fully depreciated, as of the end of the test year two had already been
9 in service for four years; three had already been in service for five years; and one had
10 been in service for seven years. The average length in service so far for these six vehicles
11 is five years.
12

13 **Q. Are you recommended a revision to the vehicle depreciation expense allocated to**
14 **Apple Canyon and Lake Wildwood in the adjusted pro forma test year?**

15 A. Yes. I recommend that the vehicle depreciation rate be changed from 25% to 20%. This
16 would result in a five year depreciation period for vehicles. The workpapers show that
17 most of the vehicles in service that are being allocated to each of these utilities are
18 already fully depreciated and that the vehicles are being retained for more than four
19 years. Thus, on a going-forward basis, I recommend that the vehicle depreciation rate be
20 reduced from 25% to 20%.
21

22 **Q. What adjustment is needed to reflect this recommendation?**

1 A. As shown on Schedule 1.8, the pro forma adjusted vehicle depreciation expense should
2 be reduced by \$852 for Apple Canyon and \$541 for Lake Wildwood.

3
4 Increased Revenues from New Customer Charges – Apple Canyon and Lake Wildwood

5 **Q. Are the Companies proposing to modify the New Customer Charge?**

6 A. Yes. Both Apple Canyon and Lake Wildwood are proposing to increase the existing
7 New Customer Charge that is applied to customers initiating service in new or existing
8 homes or commercial establishments from \$15 to \$25, or an increase of \$10.

9
10 **Q. Did the Companies reflect the impact of the proposed increase in the New Customer**
11 **Charge on the needed revenue requirements in this case?**

12 A. No, they did not. If the Commission approves the proposed increase in the New
13 Customer Charge for Apple Canyon and Lake Wildwood, the increase would provide
14 additional revenues to the Companies that would offset the need for increases in the water
15 rates. Thus, if the \$10 increase in the New Customer Charge is approved, the revenue
16 requirements should be adjusted accordingly.

17
18 **Q. What adjustments would be needed to reflect the impacts of the increase in the New**
19 **Customer Charge, if the new charge is approved by the Commission?**

20 A. As shown on Schedule 1.9, the pro forma miscellaneous revenues should be increased by
21 \$440 for Apple Canyon and \$200 for Lake Wildwood. This reduces the amount of
22 increase in water service revenues that are needed. The amounts are based on the number

1 of new customers in 2011 that the New Customer Charge applied to, or 44 customers for
2 Apple Canyon and 20 customers for Lake Wildwood.

3
4 Reduction to 401(K) Plan Expense – Apple Canyon and Lake Wildwood

5 **Q. What amount is included in the adjusted pro forma test years for 401K plan**
6 **expense and how was the amount determined?**

7 A. Apple Canyon's adjusted pro forma test year includes \$5,184 for 401K plan expense.
8 The adjusted pro forma test year for Lake Wildwood includes \$4,522 for 401K plan
9 expense. These include amounts charged and allocated to these systems for operations
10 employees, office employees and Water Service Corporation employees.

11
12 Under the Company's 401K plan, the Company will match \$0.50 on each \$1 an
13 employee contributes to the plan up to a maximum contribution equal to 3% of the base
14 annual compensation. The amount in the filing was calculated by applying the maximum
15 Company contribution rate of 3% to all of the adjusted pro forma salary amounts
16 included in the filing. This was done for each employee that allocates cost to Apple
17 Canyon and Lake Wildwood. In other words, under the Company's calculations, it is
18 assumed that all employees will participate in the 401K plan at a rate of at least 6.0%
19 contribution.

20
21 **Q. Do you agree that the method used by the Company in determining the adjusted pro**
22 **forma expense associated with the 401K plan is reasonable?**

1 A. No, it is not. The Company's method would only be correct if every employee
2 participates in the plan and if each of the employees contribute at a level to reach the
3 maximum company matching rate. This is not a reasonable assumption.
4

5 **Q. Why not?**

6 A. Not all employees chose to participate in the 401K plan, and not all of those that do chose
7 to participate contribute at the maximum rate for Company matching. In fact, there is a
8 fairly low participation level in the Company's plans. Data Request AG 2.14 asked for
9 further details on the 401K plan and the employee participation in the plan. As part of
10 the response, the Company provided an attachment containing the actual 2011 401K plan
11 contributions made by the Company on an employee by employee basis. While the file
12 listed 450 individuals, only 179 employees had Company contributions to their 401K
13 plan in 2011. This is a less than 50% participation rate. Additionally, when comparing
14 the contribution amount to the amount incorporated in the filings, on an employee by
15 employee basis, it is clear that most of the employees who do participate do not
16 participate at the maximum match rate.
17

18 **Q. Were you provided the information necessary to calculate the 401K plan expense**
19 **based on the actual employee participation rates?**

20 A. Yes. In the attachment provided by the Company in response to Data Request AG 2.14,
21 the Company provided the actual contributions it made to the 401K plan on an employee
22 by employee basis during the 2011 test year. Using that information, I was able to
23 replace the 401K contributions contained in the Company's confidential workpapers with

1 the actual employee contributions for each employee. I also increased the actual 2011
2 contributions by 3%, consistent with the 3% salary increase contained in the filing.

3
4 **Q. What adjustment is needed to reduce the 401K plan expense to be consistent with**
5 **the actual employee participation rates?**

6 A. The adjustment is provided on Schedule 1.10. In order to avoid including information
7 identified as confidential by the Company, the schedule provides the total 401K amounts
8 broken down by Operations employees, office employees and Water Service Corporation
9 employees. Individual employee amounts are not included; however, the Company's
10 confidential workpapers and the contribution amounts provided in response to Data
11 Request AG 2.14 were used to calculate the adjusted amounts presented on Schedule
12 1.10. As shown on the schedule, the adjusted pro forma 401K expense included in the
13 filing should be reduced by \$2,735 for Apple Canyon and \$2,743 for Lake Wildwood.

14
15 Rate Case Expense – Apple Canyon and Lake Wildwood

16 **Q. Is the amount of projected rate case expense contained in the Companies' filings**
17 **reasonable?**

18 A. No. The amount of rate case expense incorporated in each of the filings should be
19 reduced. Both filings included an unreasonable amount of projected hours and costs to
20 be charged by Water Service Corporation employees for assisting in the rate case. The
21 estimated costs included 1,520 hours for Water Service Corporation personnel working
22 on the Apple Canyon case and 1,520 hours for working on the Lake Wildwood case. The
23 combined estimated hours for both cases are 3,040. This is an extremely excessive

1 estimate of hours needed to work on a rate case. The result of including these excessive
2 hours, coupled with other estimated costs such as legal fees, postage and consultant costs,
3 resulted in total projected rate case cost included in the filings of \$113,691 for Apple
4 Canyon and \$112,292 for Lake Wildwood.

5
6 **Q. Have the estimated costs for the rate case been revised by the Companies?**

7 A. Yes. In response to Staff Data Request RWB 5.01, the Company provided revised
8 estimates of the costs, as well as support for the actual costs incurred and actual hours
9 expended through November 30, 2012 on the case. The revised estimate incorporated the
10 actual hours and costs through November 30, 2012 and revised estimates of the
11 remaining costs and hours. The result was a significant reduction in projected costs. The
12 projected Water Service Corporation personnel hours were significantly reduced. The
13 estimated Apple Canyon hours were reduced from 1,520 hours to 717 hours. The
14 estimated Lake Wildwood hours were reduced from 1,520 hours to 707 hours. The
15 revised hours appear to be a more realistic assumption of the hours to be incurred by
16 Water Service Corporation personnel on this case.

17
18 For Apple Canyon, the estimated costs for this rate case declined from \$113,691 to
19 \$71,324, which is a reduction of \$42,367 or 37% off the original estimate. For Lake
20 Wildwood, the estimated costs declined from \$112,292 to \$69,955, which is a reduction
21 of \$42,337 or 38% from the original estimate.

1 **Q. Are you recommending an adjustment to rate case expense based on the updated**
2 **estimates?**

3 A. Yes. The costs associated with this rate case are being added to the remaining
4 unamortized rate case expense that was approved in the prior rate cases, with the
5 resulting balances being amortized over a five-year period. At this time, I recommend
6 that the costs for this rate case be revised to reflect the more recent estimates provided by
7 the Company in response to Staff Data Request RWB 5.01. These are based on actual
8 costs through November 30, 2012 and revised estimates, provided by the Company, for
9 the remaining costs. I also recommend that the amounts included in the revised estimates
10 for charges from SFIO Consulting be removed. Apple Canyon and Lake Wildwood each
11 included \$3,000 in the estimated rate case expense for services from SFIO Consulting.
12 As shown on Schedule 1.11, the result is a \$9,074 reduction to the rate case amortization
13 expense included in Apple Canyon's filing, and a \$9,067 reduction to the rate case
14 amortization expense included in Lake Wildwood's filing. Commission Staff has
15 requested that the Companies provide updated information and support for actual costs
16 incurred as such information becomes available. Additional adjustments to the estimated
17 rate case costs provided in the response to Staff Data Request RWB 5.01 may be
18 warranted after additional support is provided by the Company and reviewed by the
19 parties in this case.

20
21 **Q. Why do you recommend that the amounts included for SFIO Consulting be**
22 **removed from the estimated rate case expense?**

1 A. I have removed these costs for several reasons. First and foremost, the Commission has
2 disallowed the inclusion of charges from SFIO Consulting in rate case expense in several
3 recent orders, including a recent order involving other Utilities, Inc. systems. Charges
4 from SFIO Consulting were disallowed for inclusion in Illinois-American Water
5 Company's rate case expense in the Order issued on September 19, 2012 in Docket No.
6 11-0767. The Commission also disallowed the SFIO Consulting charges that Utilities,
7 Inc. included in rate case expense in its May 22, 2012 Order in Docket Nos. 11-0561/11-
8 0562/11-0563/11-0564 and 11/0565 (Consolidated). In the May 22, 2012 Order, the
9 Commission indicated on page 19 that the invoices provided in the docket from SFIO
10 Consulting provided "...only a vague description of services rendered and the services
11 described seem duplicative of work for which outside counsel is being compensated."

12
13 Additionally, the Company has not supported the \$3,000 cost it has included for each
14 Company. No documentation has been provided supporting the charges, and details have
15 not been provided regarding the services SFIO Consulting is providing and
16 demonstrating that those services are not duplicative of functions already being done by
17 Water Service Corporation staff and outside counsel retained in the case. Staff has issued
18 Data Requests RWB-8.03 through 8.10 seeking further support for these costs. The data
19 requests are outstanding as of the date this testimony was prepared.

20
21 Removal of Appeals Costs from Test Year Expense – Apple Canyon and Lake Wildwood

22 **Q. Do the adjusted pro forma test years include additional regulatory costs beyond the**
23 **rate case expense amortizations discussed above?**

1 A. Yes. The workpapers provided by each of the Companies in response to Staff Data
2 Request ST-1 shows that the amounts that had been recorded on the books in the
3 Miscellaneous Regulatory Matters Commission Expense account was placed in the
4 Outside Services – Other Account on Schedule B of each of the filings. For Apple
5 Canyon, \$19,871 that had been recorded in the Miscellaneous Regulatory Matters
6 Commission Expense account, Account 6070, was include under the Maintenance
7 Expenses - Outside Services-Other category on Schedule B instead of the General
8 Expenses - Regulatory Commission Expense account. For Lake Wildwood, \$20,176 that
9 had been recorded in the Miscellaneous Regulatory Matters Commission Expense
10 account, Account 6070, was include under the Maintenance Expenses - Outside Services-
11 Other category on Schedule B instead of the General Expenses - Regulatory Commission
12 Expense account. The amounts that were moved to Maintenance Expense in the Outside
13 Services-Other category remain in the adjusted pro forma test year expenses. There was
14 no explanation provided in the workpapers indicating why these costs had been moved
15 from the Regulatory Commission Expense category under General Expenses to the
16 Outside Services – Other category under Maintenance Expenses.

17
18 **Q. Was additional information provided regarding the costs recorded in the**
19 **Miscellaneous Regulatory Matters Commission Expense account on each of the**
20 **Companies' books?**

21 A. Yes. A breakdown of the amounts recorded in the account was requested in Staff Data
22 Request TEE 3.18 for Apple Canyon and in Staff Data Request TEE 3.13 for Lake
23 Wildwood. Both responses indicate that: “The amount for 2011 primarily consists of

1 legal fees associated with the Appeal filed in the Appellate Court.” The itemized listing
2 of the costs provided as attachments to each of the responses also show that the costs are
3 almost entirely related to the appeal for each Company.

4
5 **Q. Should these costs be included in the adjusted pro forma test year for Apple Canyon**
6 **and Lake Wildwood?**

7 A. No, they should not. The responses to both Staff Data Request RWB 3.04 directed to
8 Lake Wildwood and 3.07 directed to Apple Canyon state:

9 As of December 21, 2012, the appeal remains pending and undecided in the
10 Appellate Court of Illinois Third District. The case has been fully briefed and
11 oral argument was held on February 22, 2012.
12

13 Based on the status, the majority, if not all, of the costs associated with the appeals of the
14 prior rate cases would have already been incurred. As a result, I recommend that the non-
15 recurring costs associated with the appeals that were recorded during the test year be
16 removed. This is a known and measurable adjustment pertaining to a change in costs
17 after the end of the test year. As shown on Schedule 1.12, the amount included in the
18 adjusted test year Maintenance Expenses – Outside Services–Other should be reduced by
19 \$19,860 for Apple Canyon and by \$20,172 for Lake Wildwood to remove these non-
20 recurring costs.

21
22 Excessive Unaccounted for Water – Apple Canyon and Lake Wildwood

23 **Q. Should an adjustment be made in this case to reduce costs associated with excessive**
24 **unaccounted-for water?**

1 A. Yes. Both Apple Canyon and Lake Wildwood have exceeded the percentage of
2 unaccounted-for water that is allowed for in their tariffs. For Apple Canyon, the test year
3 percentage of unaccounted-for water was 61.7%, which is far in excess of the 25% rate
4 allowed for in Apple Canyon's tariffs. For Lake Wildwood, the percentage of
5 unaccounted-for water experienced in the test year was 33.5%, which exceeds its allowed
6 tariff percentage of 15%.

7
8 **Q. How did you calculate the unaccounted-for water percentages?**

9 A. The calculation is presented on Schedule 1.13. The amount was determined by dividing
10 the total amount of water pumped for each Company by a combination of the total
11 gallons sold and the total gallons used for system flushing. The resulting unaccounted-
12 for water of 61.7% for Apple Canyon and 33.5% for Lake Wildwood is consistent with
13 the amounts presented by Staff witness Richard W. Bridal II in ICC Staff Exhibit 3.0,
14 Schedules 3.05 AC and 3.05 LW.

15
16 **Q. Were the Companies asked to provide a calculation of the unaccounted-for water**
17 **percentages for the test year?**

18 A. Yes. Data Requests AG 3.5 and AG 3.14 asked Lake Wildwood and Apple Canyon,
19 respectively, to provide the calculation and workpapers showing how they calculated the
20 unaccounted-for-water percentage.

21
22 **Q. Are the percentages provided by the Companies consistent with the percentages**
23 **calculated by you and by Mr. Bridall?**

1 A. No, they are not. In the response to Data Request AG 3.5, Lake Wildwood added
2 3,195,000 gallons to the 11,668,939 gallons sold in the test year and divided the resulting
3 amount by the total water pumped of 17,549,000 gallons. This resulted in an
4 unaccounted-for water percentage of 15.3%. The 3,195,000 gallons that were added to
5 the water sold appears on page 20W of Lake Wildwood's 2011 Form 2 ILCC. However,
6 while the 3,195,000 gallons is listed on the page, it does not appear on the line for the
7 estimated amount of water used for flushing of the distribution system, and there is no
8 description of what the 3,195,000 gallons was used for or how it was determined. Thus, I
9 excluded the 3,195,000 gallons that were unexplained by the Company in calculating the
10 unaccounted-for water percentage.

11
12 In response to Data Request AG 3.14, Apple Canyon added 8,104,960 gallons to the
13 19,958,035 gallons sold in the test year and divided the resulting amount by the total
14 water pumped of 53,801,700 gallons. This resulted in an accounted-for water percentage
15 of 47.8%. The 8,104,960 gallons is shown on page 20W of Apple Canyon's Form 22
16 ILCC for 2011. Page 20W shows that the 8,104,960 gallons includes 665,650 gallons as
17 the estimated amount of water used for flushing of the distribution system and 7,439,310
18 gallons identified as "Main breaks/leaks." In calculating the unaccounted-for water
19 percentage on Schedule 1.12, I included the 665,650 gallons for system flushing in the
20 accounted for water, but excluded the 7,439,310 identified as "main breaks/leaks." Staff
21 also excluded the amount identified as "main breaks/leaks" in its calculation of
22 unaccounted-for water.

1 **Q. What adjustment is needed to remove the costs from the test year that are**
2 **associated with unaccounted-for water that exceeds the amounts allowed for under**
3 **the tariffs?**

4 A. As shown on Schedule 1.13, Apple Canyon's maintenance expense should be reduced by
5 \$11,196 to remove the portion of chemical and electricity costs associated with the excess
6 unaccounted-for water. Lake Wildwood's maintenance expense should be reduced by
7 \$1,869 to remove the additional costs associated with unaccounted-for water.

8
9 The adjustment on Schedule 1.13 for Lake Wildwood is consistent with the amounts
10 calculated on ICC Staff Ex. 3.0, Schedules 3.05 LW. However, the adjustment on
11 Schedule 1.13 for Apple Canyon of \$11,196 exceeds the \$5,187 adjustment on ICC Staff
12 Exhibit 3.0, Schedule 3.05 AC. The difference is caused by the use of different amounts
13 for Purchased Power costs. The amount on Staff's exhibit of \$8,868 differs from the
14 amount of purchased power costs on Apple Canyon's Schedule B of \$25,257. The
15 \$25,257 on Apple Canyon's Schedule B also ties to the workpapers provided in response
16 to Staff Data Request ST-1.

17
18 **SUMMARY OF ADJUSTMENTS**

19 **Q. Could you please provide a table summarizing the adjustments recommended in**
20 **this testimony for Apple Canyon?**

21 A. Yes. Below is a table that lists each of the adjustments impacting Apple Canyon. The
22 table identifies the schedule number the adjustment can be found on and provides the

impact of the adjustment on rate base and expenses. The expense adjustments impact Maintenance Expense, General Expense or depreciation/amortization expense.

Sch. No.	Adjustment - Apple Canyon	Rate Base Reduction	Reduction to Expense
1.1	Remove Tank Painting from Pro Forma Plant	\$ (90,000)	\$ (10,000)
1.2	Remove Leak Survey Costs from Plant in Service	(11,551)	(420)
1.3	Remove Service Area Boundary Survey from Plant in Service	(1,836)	(85)
1.4	Remove Inventory Reclassification Adj. from Plant in Service	(2,886)	(101)
1.6	Remove Taxes Other than Income from CWC	(2,507)	
1.7	Reduction to Computer Depreciation Expense		(15,252)
1.8	Reduction to Vehicle Depreciation Expense		(852)
1.10	Reduction to 401K Expense		(2,735)
1.11	Reduction to Rate Case Expense		(9,074)
1.12	Remove Non-Recurring Appeal Costs		(19,860)
1.13	Remove Costs from Excessive Unaccounted-For Water		(11,196)
		<u>\$ (108,780)</u>	<u>\$ (69,575)</u>

I have also recommended an adjustment that increases Apple Canyon's revenues by \$440, which is presented on Schedule 1.9.

Q. Have you prepared a similar table for Lake Wildwood?

A. Yes. Below is a table that lists each of the adjustments impacting Lake Wildwood. The table identifies the schedule number the adjustment can be found on and provides the impact of the adjustment on rate base and expenses. The expense adjustments impact Maintenance Expense, General Expense or depreciation/amortization expense.

1

Sch. No.	Adjustment - Lake Wildwood	Rate Base Reduction	Reduction to Expense
1.3	Remove Service Area Boundary Survey from Plant in Service	\$ (2,546)	\$ (119)
1.4	Remove Inventory Reclassification Adj. from Plant in Service	(812)	(28)
1.5	Remove Storage Tanks Not in Service	(2,799)	(221)
1.6	Remove Taxes Other than Income from CWC	(2,276)	
1.7	Reduction to Computer Depreciation Expense		(8,016)
1.8	Reduction to Vehicle Depreciation Expense		(541)
1.10	Reduction to 401K Expense		(2,743)
1.11	Reduction to Rate Case Expense		(9,067)
1.12	Remove Non-Recurring Appeal Costs		(20,172)
1.13	Remove Costs from Excessive Unaccounted-For Water		(1,869)
		<u>\$ (8,433)</u>	<u>\$ (42,776)</u>

2

3 I have also recommended an adjustment that increases Lake Wildwood's revenues by
4 \$200, which is presented on Schedule 1.9.

5

6 **Q. Does this complete your direct testimony?**

7 A. Yes, it does.

APPENDIX I - QUALIFICATIONS OF DONNA RAMAS

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant, licensed in the State of Michigan, and a senior regulatory consultant and Principal of the firm Ramas Regulatory Consulting, LLC, located in Commerce Township, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. From 1991 through October 2012, I was employed by the firm of Larkin & Associates, PLLC. In November 2012, I formed Ramas Regulatory Consulting, LLC. As a certified public accountant and regulatory consultant, I have analyzed utility rate cases and regulatory issues, researched accounting and regulatory developments, prepared computer models and spreadsheets, prepared testimony and schedules and testified in regulatory proceedings. While employed by Larkin & Associates, PLLC, I also developed and conducted five training programs on behalf of the Department of Defense - Navy Rate Intervention Office on measuring the financial capabilities of firms bidding on Navy assets and one training program on calculating the revenue requirement for municipal owned water and wastewater utilities. Additionally, I have served as an instructor at the Michigan State University - Institute of Public Utilities as part of their Annual Regulatory Studies programs.

I have prepared and submitted expert testimony and/or testified in the following cases, most of which were filed under the name of Donna DeRonne:

Arizona: Ms. Ramas prepared testimony on behalf of the Staff of the Arizona Corporation Commission in the following case before the Arizona Corporation Commission: Southwest Gas Corporation (Docket No. G-01551A-00-0309).

California: Ms. Ramas prepared testimony on behalf of the Division of Ratepayer Advocates of the California Public Utilities Commission in the following cases before the California Public Utilities Commission:

San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.05-08-021), Request for Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Inc., Resulting in Change of Control of California-American Water Company (Application 06-05-025), California Water Services Company (Docket No. 07-07-001*), Golden State Water Company (Docket No. 08-07-010), and Golden State Water Company (Docket No. 11-07-017*), and Golden State Water Company – Rehearing (Docket No. 08-07-010*).

Ms. Ramas also prepared testimony on behalf of the Department of Defense in the following cases before the California Public Utilities Commission: San Diego Gas and Electric Company (Docket No. 98-07-006) and Southern California Edison Company and San Diego Gas & Electric Company (Docket No. 05-11-008*).

Additionally, Ms. Ramas prepared testimony on behalf of the City of Fontana in the following rate cases before the California Public Utilities Commission: San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.08-07-009) - Phases 1 and 2; San Gabriel Valley Water Company, Los Angeles Division (Docket No. A.10-07-019*), and San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.11-07-005).

Ms. Ramas also prepared testimony on behalf of The Utilities Reform Network in the following rate case before the California Public Utilities Commission: California American Water Company (Docket No. 10-07-007).

Connecticut: Ms. Ramas has prepared testimony on behalf of the Connecticut Office of Consumers Counsel in the following cases before the State of Connecticut, Department of Public Utility Control:

Connecticut Light & Power Company (Docket No. 92-11-11), Connecticut Natural Gas Corporation (Docket No. 93-02-04), Connecticut Natural Gas Corporation (Docket No. 95-02-07), Southern Connecticut Gas Company (Docket No. 97-12-21), Connecticut Light & Power Company (Docket No. 98-01-02), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase I), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase II), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase I), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase II), Connecticut Light & Power Company (Docket No. 00-12-01), Yankee Gas Services Company (Docket No. 01-05-19), United Illuminating Company (Docket No. 01-10-10), Connecticut Light & Power Company (Docket No. 03-07-02), Southern Connecticut Gas Company (Docket No. 03-11-20), Yankee Gas Services Company (Docket No. 04-06-01*), The Southern Connecticut Gas Company (Docket No. 05-03-17PH01), The United

Illuminating Company (Docket No. 05-06-04), Connecticut Natural Gas Corporation (Docket No. 06-03-04* Phase I), Yankee Gas Services Company (Docket No. 06-12-02PH01*), Aquarion Water Company of Connecticut (Docket No. 07-05-19), Connecticut Light & Power Company (Docket No. 07-07-01), The United Illuminating Company (Docket No. 08-07-04), Connecticut Light & Power Company (Docket No. 09-12-05), and Yankee Gas Services Company (Docket No. 10-12-02).

Ms. Ramas also assisted the Connecticut Office of Consumer Counsel by conducting cross-examination of utility witnesses in the following cases: Southern Connecticut Gas Company (Docket No. 08-12-07), Connecticut Natural Gas Corporation (Docket No. 08-12-06), UIL Holdings Corporation and Iberdrola USA, Inc. (Docket No. 10-07-09), and Northeast Utilities/NSTAR Merger (Docket No. 12-01-07).

District of Columbia: Ms. Ramas prepared testimony on behalf of the Office of the People's Counsel of the District of Columbia in the following case before the Public Service Commission of the District of Columbia: Washington Gas Light Company (Formal Case No. 1054*), Potomac Electric Power Company (Formal Case No. 1076), Potomac Electric Power Company (Formal Case No. 1087), and Washington Gas Light Company (Formal Case No. 1093).

Florida: Ms. Ramas prepared testimony on behalf of the Florida Office of Public Counsel in the following cases before the Florida Public Service Commission:

Southern States Utilities (Docket No. 950495-WS), United Water Florida (Docket No. 960451-WS), Aloha Utilities, Inc. – Seven Springs Water Division (Docket No. 010503-WU), Florida Power Corporation (Docket No. 000824-EI*), Florida Power & Light Company (Docket No. 001148-EI**), Tampa Electric Company d/b/a Peoples Gas System (Docket No. 020384-GU*), The Woodlands of Lake Placid, L.P. (Docket No. 020010-WS), Utilities, Inc. of Florida (Docket No. 020071-WS), Florida Public Utilities Company (Docket No. 030438-EI*), The Woodlands of Lake Placid, L.P. (Docket No. 030102-WS), Florida Power & Light Company (Docket No. 050045-EI*), Progress Energy Florida, Inc. (Docket No. 050078-EI*), Florida Power & Light Company (Docket No. 060038-EI), Water Management Services, Inc. (Docket No. 100104-WU), Gulf Power Company (Docket No. 110138-EI), and Florida Power & Light Company (Docket No. 120015-EI).

Louisiana: Ms. Ramas prepared testimony on behalf of various consumers in the following case before the Louisiana Public Service Commission: Atmos Energy Corporation d/b/a Trans Louisiana Gas Company (Docket No. U-27703*).

Massachusetts: Ms. Ramas prepared testimony on behalf of the Massachusetts Attorney General's Office of Ratepayer Advocacy in the following cases before the Massachusetts Department of Public Utilities: New England Gas Company (DPU 10-114), Fitchburg Electric Company (DPU 11-01), Fitchburg Gas Company (DPU 11-02) and NStar/Northeast Utilities Merger (DPU 10-170).

New York: Ms. Ramas prepared testimony on behalf of the New York Consumer Protection Board in the following cases before the New York Public Service Commission:

New York State Electric & Gas Corporation (Case No. 05-E-1222), KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (Case Nos. 06-G-1185 and 06-G-1186*), Consolidated Edison Company of New York, Inc. (Case No. 06-G-1332*), and Consolidated Edison Company of New York, Inc. (Case No. 07-E-0523).

Nova Scotia: Ms. Ramas prepared testimony on behalf of the Nova Scotia Utility and Review Board – Board Counsel in the following case: Halifax Regional Water Commission (W-HRWC-R-10); Nova Scotia Power Incorporated (NSPI-P-892*); Heritage Gas Limited (NG-HG-R-11*); NPB Load Retention Rate Application – NewPage Port Hawkesbury Corp. and Bowater Mersey Paper Company Ltd. (NSPI-P-202); and Nova Scotia Power Incorporated (NSPI-P-893*).

North Carolina: Ms. Ramas assisted Nucor Steel-Hertford, A Division of Nucor Corporation in the review of an application filed by Dominion North Carolina Power for an Increase in rates (Docket no. E-22, Sub 459**). The case was settled prior to the submittal of intervenor testimony.

Utah: Ms. Ramas prepared testimony on behalf of the Utah Committee of Consumer Services in the following cases before the Public Service Commission of Utah:

PacifiCorp dba Utah Power & Light Company (Docket No. 99-035-10), PacifiCorp dba Utah Power & Light Company (01-035-01*), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23 Interim (Oral testimony)), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23**), Questar Gas Company (Docket No. 02-057-02*), PacifiCorp (Docket No. 04-035-42*), PacifiCorp (Docket No. 06-035-21*), Rocky Mountain Power (Docket Nos. 07-035-04, 06-035-163 and 07-035-14), Rocky Mountain Power (Docket No. 07-035-93), Questar Gas Company (Docket No. 07-057-13*), Rocky Mountain Power (Docket No. 08-035-93*), Rocky Mountain Power (Docket No. 08-035-38*), Rocky Mountain Power Company (Docket No. 09-035-23), Questar Gas Company (Docket No. 09-057-16**), Rocky Mountain Power Company (Docket No. 10-035-13), Rocky Mountain Power Company (Docket No. 10-035-38), Rocky Mountain Power Company (Docket No. 10-035-89), Rocky Mountain Power Company (Docket No. 10-035-124*), and Rocky Mountain Power Company (Docket No. 11-035-200*).

Vermont: Ms. Ramas prepared testimony on behalf of the Vermont Department of Public Service in the following cases before the Vermont Public Service Board: Citizens Utilities Company – Vermont Electric Division (Docket No. 5859), Central Vermont Public Service Corporation (Docket No. 6460*), and Central Vermont Public Service Corporation (Docket No. 6946 & 6988).

Washington: Ms. Ramas prepared testimony on behalf of the Public Counsel Section of the Washington Attorney General’s Office in the following case before the Washington Utilities and Transportation Commission: PacifiCorp (Docket No. UE-090205*).

West Virginia: Ms. Ramas has prepared testimony on behalf of the West Virginia Consumer Advocate Division in the following cases before the Public Service Commission of West Virginia: Monongahela Power Company (Case No. 94-0035-E-42T), Potomac Edison Company (Case No. 94-0027-E-42T), Hope Gas, Inc. (Case No. 95-0003-G-42T*), and Mountaineer Gas Company (Case No. 95-0011-G-42T*).

* Case Settled / ** Testimony not filed/submitted due to settlement